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CENTRAL POWER COMPANY

Annual Report

1933

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CENTRAL POWER COMPANY

General Office: 385 North Pine Street

Grand Island, Nebraska

BOARD OF DIRECTORS

A. W. BORDEN
V. M. JOHNSON
F. E. KRUESI
J. G. LOWE
GEO. A. MILLS
R. F. PFEIFFER
WM. SUHR

OFFICERS

F. E. KRUESI ..... President
V. M. JOHNSON ..... Vice-President and Treasurer
J. C. HOGE ..... Vice-President
C. L. PAULLIN ..... Vice-President
HOWARD KYLE ..... Secretary and Auditor
H. E. KRALL ..... Ass't Treasurer

Transfer Agent

MIDDLE WEST STOCK TRANSFER COMPANY

20 North Wacker Drive, Chicago, Illinois

Registrar of Stock

CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY

Chicago, Illinois

This report is prepared primarily for the information of security holders of the Company and is not transmitted in connection with the sale of any security or offer to sell or offer to buy any security.

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1933

CENTRAL POWER COMPANY

March 13, 1934

To the Stockholders:

Your Directors present to you in this report the financial and operating results of Central Power Company for the year 1933.

OPERATIONS

Despite unfavorable agricultural and business conditions existing throughout the territory served, the total gross earnings of the Company in the year 1933 declined only $35,204.77 or approximately 3% from the year 1932. Largely as a result of new gas heating customers added during the year, the gas operating revenue increased $45,757.91 in 1933. There was, however, a decline of $75,342.56 in electric revenues and $6,882.74 in water revenues during the year 1933 as compared with 1932.

The decline in electric revenues during 1933 is largely accounted for by rate reductions which were made in several communities. The loss occasioned by these rate reductions, however, was in some measure offset by obtaining additional business at the lower rates. The Company's rates, both gas and electric, are low and compare favorably with the rates of other companies in the state and elsewhere.

Every effort was made by the Management during the year to effect economies in operation without affecting the character and reliability of service rendered or the physical condition of the property. Early in the year 1933 all employes and officials accepted a further reduction in compensation.

Provision for depreciation amounted to $119,309.95 in 1933, which is $40,178.18 more than for 1932. This provision is for the ultimate retirement of equipment used in furnishing service to customers of the Company. Plant account was written down $340,000 during the year 1933 in order to eliminate manufactured gas plants abandoned and this amount was charged to the reserve for depreciation.

The burden of taxation is becoming increasingly heavy. A Federal Tax of 3% of the revenue from the sale of domestic and commercial electricity was placed on the Company, effective September 1, 1933. Prior to that date this tax was paid by the consumer; had the 3% Federal Tax been in effect during all of 1933, it would have aggregated close to $14,000.

During the year 1933 an appropriation of $75,000 was made from the earned surplus of the Company in order to establish a reserve for contingencies.

Your Company has made a sincere effort to cooperate with the Government to carry out the provisions of the National Industrial Recovery Act.

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DIVIDENDS

Although the net income of the Company available for dividends in 1933 amounted to only $9,517.64 as compared with $131,891.56 in 1932, preferred dividends in the amount of $31,598.38 were paid, the larger portion of which was paid from the surplus account. As a result of declining earnings, preferred dividends were reduced on July 15, 1933, to one-half the regular rate, and on October 15, 1933, it was necessary to eliminate preferred dividends entirely.

The Management regrets exceedingly the necessity for discontinuing its preferred dividends and is desirous of resuming payments as soon as improved earnings and other conditions will permit. Dividends on the preferred stocks are cumulative and as of January 15, 1934, accumulated and unpaid preferred dividends amounted to $4.37½ and $3.75 per share on the 7% and 6% preferred stocks, respectively. No dividends have been paid on the Company's common stock since April 15, 1932.

Any improvement in general business conditions throughout the territory served should react favorably upon the Company's revenue. The Company's facilities, such as plants, lines and mains, are capable of taking care of considerably more business with a relatively small increase in expense. A substantial portion of any increased income, provided of course uncontrollable expenses do not also increase, would be available for surplus and dividends on the preferred stock.

NEW BUSINESS

The Management is aggressively seeking additional business and as a result of such efforts, a substantial amount of new business has been secured. Approximately 500 additional gas heating customers were added during the year 1933 with an estimated increase in annual gross revenue to the Company of $40,000. The number of gas and electric appliances sold in cooperation with the merchants in the communities served was especially gratifying; these appliances should increase the demand for the Company's service in the future.

CUSTOMER RELATIONS

The Officers and Directors of your Company, realizing that the prosperity of the Company and the communities it serves are interdependent, wish to acknowledge the sincere cooperation which they have received from the officials of the cities and towns served.

On behalf of the Directors it is also a pleasure to acknowledge the help which we have received from the stockholders and to compliment the employes for their loyal and efficient work.

By Order of the Board of Directors,

F. E. KRUESI, President

CENTRAL POWER COMPANY

STATEMENT OF INCOME ACCOUNTS FOR THE YEARS ENDED DECEMBER 31, 1933 AND 1932 AND SUMMARY OF SURPLUS ACCOUNT

INCOME ACCOUNT

	Year Ended December 31	
	1933	1932
GROSS EARNINGS:		
Electric	$ 781,623.70	$ 856,966.26
Gas	309,220.10	263,462.19
Water	34,398.70	41,281.44
Other operating revenues (net)	4,333.84	3,071.22
Total gross earnings	$1,129,576.34	$1,164,781.11
OPERATING EXPENSES AND TAXES:		
Operation	$ 549,596.35	$ 509,652.52
Maintenance	101,422.11	99,274.56
Provision for depreciation—as determined by company	119,309.95	79,131.77
Taxes—		
State, local, etc.	60,950.78	53,310.89
Federal income—see note	——	——
Total operating expenses and taxes	831,279.19	741,369.74
Net earnings from operations	298,297.15	423,411.37
OTHER INCOME (net)	3,139.72	3,883.90
Net earnings	$ 301,436.87	$ 427,295.27
INTEREST DEDUCTIONS:		
Funded-debt interest	$ 262,696.83	$ 261,725.00
General interest	2,126.88	6,583.19
Amortization of bond discount and expense	27,095.52	27,095.52
Total interest deductions	$ 291,919.23	$ 295,403.71
Net income	$ 9,517.64	$ 131,891.56

NOTE: The company in its Federal-income tax returns has claimed and, we understand, will claim income account deductions in addition to those reflected above on which basis the company has made no provision for this tax.

SUMMARY OF SURPLUS ACCOUNT

SURPLUS BALANCE DECEMBER 31, 1931 (per books)		$ 546,223.35
DEDUCT—Net decrease in surplus for the year ended December 31, 1932, per previous report		187,381.84
SURPLUS BALANCE DECEMBER 31, 1932		$ 358,841.51
ADD—Net income for the year ended December 31, 1933, as above		9,517.64
DEDUCT:		$ 368,359.15
Dividends paid on preferred stock—		
7% preferred—$2.625 per share $ 26,088.13		
6% preferred—$2.25 per share 5,510.25	$ 31,598.38	
Unbilled revenue charged off as of January 1, 1933	37,150.54	
Provision for reserve for contingencies	75,000.00	143,748.92
Surplus balance December 31, 1933, subject to the adequacy of the reserve for depreciation		$ 224,610.23

ASSETS

PLANT, PROPERTY, RIGHTS, FRANCHISES, ETC.—stated at par value of bonds and common stock issued for properties acquired (approximately $3,600,000) plus other acquisitions and additions at cost, less retirements:			
Balance December 31, 1931—per books		$ 9,107,268.07	
Net additions for 1932, per previous report		45,066.16	
Balance December 31, 1932		$ 9,152,334.23	
Deduct—Net changes for year ended December 31, 1933, including $340,559.57 book value of artificial-gas plants abandoned		317,679.36	$ 8,834,654.87
PREFERRED AND COMMON-STOCK COMMISSIONS AND EXPENSES (net)			46,724.68
SPECIAL DEPOSIT ACCOUNT RATES IN LITIGATION, per contra			10,869.90
NOTE RECEIVABLE FROM MIDDLE WEST UTILITIES COMPANY (in receivership)			83,980.00
BOND DISCOUNT AND EXPENSE IN PROCESS OF AMORTIZATION (including $259,931.86 applicable to refunded issues)			636,744.33
PREPAID ACCOUNTS AND DEFERRED CHARGES			19,447.93
CURRENT ASSETS:			
Cash in banks		$ 173,380.61	
Working funds		3,290.20	
Notes receivable	4,564.65		
Accounts receivable, including $5,269.61 employees' accounts	181,547.48		
	$186,112.13		
Less—Reserve for uncollectible notes and accounts	13,066.84	173,045.29	
Due from affiliated companies		4,061.23	
Construction and operating materials and supplies, and merchandise inventories		49,533.91	403,311.24
			$ 10,035,732.95

To the Board of Directors
Central Power Company:

We have made an examination of the balance sheet of CENTRAL POWER COMPANY (a Delaware corporation) as at December 31, 1933, and of the statements of income and surplus for the two-year period ended that date. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the period reviewed, but we did not make a detailed audit of the transactions, nor did we verify the correctness of the balances in the property, depreciation-reserve and surplus accounts at December 31, 1931.

Subject to the foregoing and to the adequacy of the current provisions and reserve for depreciation, in our opinion, the accompanying balance sheet and related income and surplus accounts fairly present, in accordance with accepted principles of accounting consistently maintained during the period under review, the financial position of the company at December 31, 1933, and the results of its operations for the two years ended that date.

ARTHUR ANDERSEN & CO.

Chicago, Illinois, January 30, 1934.

ER COMPANY

DECEMBER 31, 1933

LIABILITIES

CAPITAL STOCK:			
Cumulative-preferred stock — authorized 20,000 shares, par value $100.00 each, issuable in series—liquidating values $100.00 per share, redeemable at $110.00 per share—			
7% cumulative-preferred stock	$ 1,040,000.00		
Less—476* shares reacquired	47,600.00	$ 992,400.00	
6% cumulative-preferred stock	$ 260,000.00		
Less—160* shares reacquired	16,000.00	244,000.00	
Common stock—authorized 35,000 shares, par value $100.00 each—issued 29,801 shares, less 2,585 donated shares		2,721,600.00	$ 3,958,000.00
FUNDED DEBT:			
First mortgage 5% Gold Bonds, Series D, due July 1, 1957			5,234,500.00
DEFERRED LIABILITIES:			
Customers' deposits		$ 27,973.28	
Electric Transmission Line and System bonds, less $2,000.00 in treasury, assumed in connection with property purchases, due 1937-1943		15,500.00	
Revenue in litigation—see special deposits		16,506.55	59,979.83
CURRENT LIABILITIES:			
Accounts payable		$ 48,306.99	
Due affiliated companies		1,708.45	
Accrued interest		131,090.00	
State and local taxes		31,725.77	
Federal income taxes (subject to Treasury Department review)		6,590.07	
Miscellaneous current liabilities		5,980.60	225,401.88
RESERVES:			
Depreciation (including $180,732.86 reserve balances of predecessor companies)		$173,612.96	
Contributions for extensions		48,557.07	
Contingencies		75,000.00	297,170.03
CAPITAL SURPLUS — representing surplus of predecessor companies at dates of acquisition			36,070.98
SURPLUS—see accompanying summary			224,610.23
			$10,035,732.95
CONTINGENT LIABILITIES reported by company, approximately		$ 7,000.00	

NOTE: Cumulative-preferred dividends accrued and unpaid to December 31, 1933—$52,567.50.

*These reacquired shares costing $63,600.00 were in process of cancellation at the date of our report.

COMPARATIVE STATISTICAL DATA
CENTRAL POWER COMPANY

ELECTRIC	1933	1932	1931
Number of communities served—retail electricity	45	45	44
Population served with electricity—retail	47,979	48,705	48,675
Number of domestic electric customers	8,647	9,562	10,029
Number of electric customers other than domestic	3,489	2,922	3,460
Kilowatt hours of electricity generated	35,435,150	34,963,791	36,937,300
Kilowatt hours of electricity purchased	1,321,630	1,975,650	2,222,110
Kilowatt hours of electricity sold	28,483,986	28,661,150	30,341,665
Capacity of hydro-electric stations—K.W.	4,700	4,700	4,700
Number of hydro-electric stations	3	3	3
Capacity of fuel burning stations—K.W.	20,136	20,136	20,136
Number of fuel burning stations	7	7	7
Miles of transmission lines 6,600 volts and over	543	543	541
Miles of transmission lines under 6,600 volts	33	33	33
NATURAL GAS			
Number of communities served—retail gas	4	4	4
Population served with gas (not served with electricity and included above)	15,140	15,950	15,950
Number of domestic gas customers	7,717	7,771	7,675
Number of industrial and other gas customers	717	693	705
Capacity of holders—cubic feet	646,000	672,000	672,000
Number of holders	10	13	13
Cubic feet of gas purchased—M.	529,878	411,776	286,431
Cubic feet of gas sold—M.	461,059	367,421	265,543
Miles of gas mains	150.9	149.8	125.5
WATER			
Number of communities served—retail water	1	1	1
Population served with water (not served with electricity or gas and included above)	—	—	—
Number of domestic customers	1,231	1,436	1,516
Number of water customers other than domestic	259		
Daily capacity of plants in gallons	2,000,000	2,000,000	2,000,000
Number of pumping plants	1	1	1
Miles of water mains	21	21	21
Gallons of water pumped M—(Estimated)	38,900	40,000	43,000
MISCELLANEOUS			
Total number of communities served retail with one or more classes of service	46	46	45
Number of preferred stockholders	1,399	1,490	1,500

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Central Power Company

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Annual Report

1935

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CENTRAL POWER COMPANY

General Office: 385 North Pine Street

Grand Island, Nebraska

BOARD OF DIRECTORS

A. W. BORDEN,
Hastings, Nebraska

V. M. JOHNSON,
Grand Island, Nebraska

F. E. KRUESI,
Grand Island, Nebraska

J. G. LOWE,
Kearney, Nebraska

R. F. PFEIFFER,
Kearney, Nebraska

WM. H. PITZER,
Nebraska City, Nebraska

WM. SUHR,
Grand Island, Nebraska

OFFICERS

F. E. KRUESI.....President

V. M. JOHNSON.....Vice-President and Treasurer

J. C. HOGE.....Vice-President

HOWARD KYLE.....Secretary and Auditor

H. E. KRALL.....Ass't Sec'y and Ass't Treas.

Transfer Agent

ILLINOIS STOCK TRANSFER COMPANY

Chicago, Illinois

Registrar of Stock

CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY

Chicago, Illinois

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1935

CENTRAL POWER COMPANY

March 14, 1936

To the Stockholders:

Your Directors present to you in this report the financial and operating results of Central Power Company for the year 1935.

THE YEAR'S BUSINESS

Total operating revenue of the Company for the year 1935 amounted to $1,399,173.74 compared with $1,299,647.26 in 1934, an increase of $99,526.48 or 7.65%. Of the increase in operating revenue $26,247.35 was in sales of electricity and $77,431.91 in gas. Water sales decreased $6,330.31.

Operating expenses, exclusive of maintenance, taxes and provision for retirement, increased $66,700.57, of which $63,096.90 was in the cost of gas purchased for resale. Of this latter amount $49,808.29 was owing to the increased quantity of gas purchased, and the remainder, or $13,288.61, to an increase in the contract price for gas in certain classifications. Additional quantities sold and purchased will bring down the average price paid to the pipeline company.

Maintenance expenditures amounted to $131,270.72 and provision for retirement $154,652.21. This provision is for the ultimate replacement or retirement of equipment used in furnishing service to the customers of the Company.

Taxes continued to increase and aggregated $75,904.50 not including numerous indirect taxes.

During the year, expenditures for new construction totaled $129,084.20. The greater portion of these investment expenditures were for improving service to present customers and for connecting new business secured. Property retired amounted to $108,674.34 including property in litigation, resulting in a net increase of $20,409.86 in plant and property.

FINANCIAL

After deducting operating expenses including provision for retirement, interest on funded debt, general interest and amortization there remained a net income of $76,200.16 available for preferred stock dividends as compared with $38,610.36 for 1934. Total dividends declared on the preferred stock during the year amounted to $42,042.23 and were at one-half the full rate, or $3.50 per share and $3.00 per share on the 7% and 6% Preferred stock, respectively. Accumulated and unpaid dividends in arrears on December 31, 1935, amounted to $12.25 per share on the 7% Preferred stock and $10.50 per share on the 6% Preferred stock, or a total of $147,189.00.

During the year the Company purchased in the open market from accumulated reserves $169,000.00 in principal amount of its First Mortgage bonds which are held in the treasury of the Company.

RATES

The Company continued its policy of offering customers, through lower and more attractive rate schedules, an incentive to make greater use of electric and gas service. Our customers now enjoy exceptionally low rates as shown by the Federal Power Commission's Rate Survey published in 1935. Residential electric customers making full use of the service, that is, using a refrigerator, range, water heater and normal lighting are obtaining this service at an average rate of about 2 cents a kilowatt-hour.

NEW BUSINESS

An aggressive new business program was maintained during the year with special effort being placed on the sales of major load building appliances, such as ranges, water heaters, refrigerators and gas house heating equipment. The many advantages of natural gas for heating are being more generally recognized and in cooperation with the merchants in communities served with gas, the Company secured 350 additional gas heating customers during 1935.

PUBLIC OWNERSHIP

Your Company recently joined with other Nebraska utility companies in a suit filed in Washington to prevent Government agencies from forcing the so-called "LITTLE TVA" contract upon the State of Nebraska and the Columbus, Sutherland and Tri-County hydro and irrigation projects, which are being financed by the Public Works Administration.

In our opinion the Government seeks to dominate or control the construction and operation of a proposed state-wide inter-connected system, designed to invade the territory now adequately served by this and other companies, and through a tax free and government subsidized agency, force private companies out of existence.

The securities of this Company are owned by many thousands of citizens. Each and every investor in this Company should assert his right to have his investment receive the same protection which is accorded other property. Your public servants ought not, by tax free, subsidized agencies and unfair competition, destroy your investment.

APPRECIATION

The Officers and Directors of your Company, realizing that the prosperity of the Company and the communities it serves are inter-dependent, wish to acknowledge the sincere cooperation which they have received from the officials of the cities and towns served.

On behalf of the Directors it is also a pleasure to acknowledge the help which we have received from the stockholders and to compliment the employes for their loyal and efficient work.

By Order of the Board of Directors,
F. E. KRUESI, President.

CENTRAL POWER COMPANY

STATEMENT OF INCOME ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1935 AND SUMMARY OF SURPLUS ACCOUNT

INCOME ACCOUNT

OPERATING REVENUES:	
Electric	$ 891,410.09
Gas	459,091.70
Water	39,997.16
Other operating revenues (net)	8,674.79
Total operating revenues	$1,399,173.74
OPERATING EXPENSES AND TAXES:	
Operation	$ 674,827.08
Maintenance	131,270.72
Provision for retirements—as determined by company—see auditors' report	154,652.21
Taxes—	
State and local, etc.	73,663.95
Federal income	2,240.55
Total operating expenses and taxes	$1,036,654.51
Net earnings from operations	$ 362,519.23
OTHER INCOME (net)	770.15
Net earnings	$ 363,289.38
INTEREST DEDUCTIONS:	
Interest on funded debt	$ 258,080.93
General interest	2,353.64
Amortization of bond discount and expense	26,654.65
Total interest deductions	$ 287,089.22
Net income	$ 76,200.16

NOTE: In the Federal income-tax returns filed by the corporation, the amounts deducted for depreciation are computed upon the basis of the age and estimated service lives of depreciable property, as allowed by the U. S. Treasury Department, and are larger than the provision for retirement reserve as set forth above.

SUMMARY OF SURPLUS ACCOUNT

SURPLUS BALANCE DECEMBER 31, 1934, per previous report (balance per books December 31, 1931—$546,223.35)			$ 86,323.43
ADD—Net income for year ended December 31, 1935		$76,200.16	
DEDUCT:			
Dividends declared on preferred stock—			
7% preferred—$3.50 per share	$34,722.23		
6% preferred—$3.00 per share	7,320.00	42,042.23	34,157.93
			$ 120,481.36
DEDUCT—Amortization of property abandoned		$20,365.52	
Less—Miscellaneous credits to surplus		8,718.57	11,646.95
Surplus balance December 31, 1935			$ 108,834.41

ASSETS

PLANT, PROPERTY, RIGHTS, FRANCHISES, ETC.* stated on the basis of the par value of bonds and common stock issued and cash paid for properties acquired as entireties (approximately $4,500,000) plus subsequent additions at cost, less retirements:			
Balance December 31, 1931, per books		$ 9,107,268.07	
Deduct—Excess of property retired over additions—1932-1935		822,248.50	$ 8,285,019.57
PROPERTY ABANDONED — IN PROCESS OF AMORTIZATION—see auditors' report			162,924.18
PREFERRED- AND COMMON-STOCK COMMISSIONS AND EXPENSES (net)			46,724.68
DEPOSITS, ETC.:			
Deposit for account of trustees for sale of property—in litigation		$ 42,951.00	
Miscellaneous investments and deposits		875.00	43,826.00
BOND DISCOUNT AND EXPENSE IN PROCESS OF AMORTIZATION OVER LIFE OF PRESENTLY OUTSTANDING ISSUE (including $230,134.04 applicable to refunded issues)			563,745.30
PREPAID ACCOUNTS AND DEFERRED CHARGES			4,956.34
CURRENT ASSETS:			
Cash (including working funds of $4,670.20)		$ 274,358.95	
Customers' accounts, notes and warrants receivable	$228,881.19		
Less—Reserve for uncollectible notes and accounts	16,793.91	212,087.28	
Materials and supplies—quantities and condition determined by the company; priced at approximate cost		70,868.21	557,314.44
			$ 9,664,510.51

* The accounts of the company do not reflect a complete separation between tangible property and intangibles.

To the Board of Directors,
Central Power Company:

We have made an examination of the balance sheet of CENTRAL POWER COMPANY (a Delaware corporation) as at December 31, 1935 and of the statement of income and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions. We did not determine the correctness of the balances in the property and surplus accounts at December 31, 1931.

The balance ($306,944.78) in the company's retirement reserve as of December 31, 1934 was utilized at that date to make partial provision for losses on property abandoned of $510,600.00. The balance of these losses, $203,655.22, was deferred by action of the Board of Directors and is in process of amortization by annual charges to surplus over a ten-year period commencing with the year 1934.

The company, under the retirement method, permitted by the classification of accounts adopted by the National Association of Railway and Utilities Commissioners, undertakes to provide for property retirement losses currently realized. This method does not contemplate a full provision for accrued depreciation as determined by the age and estimated service life of the properties.

Subject to the foregoing comments, in our opinion, based upon the examination referred to above, the accompanying balance sheet and statement of income and surplus accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the year under review, the financial position of the company as of December 31, 1935 and the results of its operations for the year ended that date.

ARTHUR ANDERSEN & CO.

Chicago, Illinois, January 18, 1936.

COMPANY

EMBER 31, 1935

LIABILITIES

CAPITAL STOCK:		
Cumulative-preferred stock—authorized 20,000 shares, par value $100.00 each, issuable in series—		
7%-cumulative-preferred stock—Issued and outstanding	$ 992,400.00	
6%-cumulative-preferred stock—Issued and outstanding	244,000.00	
Common stock—authorized 35,000 shares, par value $100.00 each—issued 29,801 shares, less 2,585 reacquired shares	2,721,600.00	$ 3,958,000.00
FUNDED DEBT:		
First-mortgage 5% gold bonds, Series D, due July 1, 1957 outstanding	$5,234,500.00	
Less—Bonds reacquired and held in treasury	169,000.00	5,065,500.00
DEFERRED LIABILITIES:		
Customers' deposits and accrued interest	$ 35,082.88	
Electric Transmission Line and System bonds assumed in connection with property purchases, due 1937-1943	7,500.00	42,582.88
CURRENT LIABILITIES:		
Accounts payable	$ 76,559.77	
Accrued interest	126,825.00	
State and local taxes	33,239.19	
Federal income taxes (subject to review by Treasury Department)	5,162.25	
Dividends payable	10,510.60	
Miscellaneous current liabilities	5,926.30	258,223.11
RESERVES:		
Retirement reserve (after taking up $180,732.86 reserve balances of predecessor companies)—see auditors' report	$ 102,948.14	
Depreciation—automobiles	28,943.88	
Contributions for extensions	50,669.87	
Net discount on bonds reacquired, reserved pending disposition of bonds	12,737.24	195,299.13
CAPITAL SURPLUS — representing surplus of predecessor companies at dates of acquisition		36,070.98
SURPLUS		108,834.41
		$ 9,664,510.51
CONTINGENT LIABILITIES reported by the company, approximately	$2,000.00	

NOTE: Cumulative-preferred dividends not declared or accrued by the company to December 31, 1935—$147,189.00.

COMPARATIVE STATISTICAL DATA
CENTRAL POWER COMPANY

ELECTRIC	1935	1934	1933
Number of communities served—retail electricity	43*	45	45
Population served with electricity—retail	46,716*	47,979	47,979
Number of domestic electric customers	8,573*	8,809	8,647
Number of electric customers other than domestic	3,294*	3,421	3,489
Kilowatt hours of electricity sold	34,216,461	31,596,236	28,483,986
Capacity of hydro-electric stations—K.W.	4,700	4,700	4,700
Number of hydro-electric stations	3	3	3
Capacity of fuel burning stations—K.W.	17,886	19,136	20,136
Number of fuel burning stations	6	7	7
Miles of transmission lines 6,600 volts and over	543	543	543

* Two communities now classified as wholesale customers.

GAS			
Number of communities served—retail gas	4	4	4
Population served with gas (not served with electricity and included above)	15,500	15,140	15,140
Number of domestic gas customers	8,195	7,857	7,717
Number of industrial and other gas customers	1,005	947	717
Cubic feet of gas sold—M	777,767	641,260	461,059
Miles of gas mains	155.5	152.1	150.9

WATER			
Number of communities served—retail water	1	1	1
Population served with water (not served with electricity or gas and included above)	None	None	None
Number of domestic customers	1,302	1,273	1,231
Number of water customers other than domestic	264	267	259
Daily capacity of plants in gallons	2,000,000	2,000,000	2,000,000
Number of pumping plants	1	1	1
Miles of water mains	21.2	21.1	21.0
Gallons of water pumped—M	305,613	374,200	394,500

MISCELLANEOUS			
Total number of communities served retail with one or more classes of service	44	46	46

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Central Power Company

Annual Report

1936

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CENTRAL POWER COMPANY

General Office: 385 North Pine Street
Grand Island, Nebraska

BOARD OF DIRECTORS

A. W. BORDEN
Hastings, Nebraska

V. M. JOHNSON
Grand Island, Nebraska

F. E. KRUESI
Grand Island, Nebraska

J. G. LOWE
Kearney, Nebraska

R. F. PFEIFFER
Kearney, Nebraska

WM. H. PITZER
Nebraska City, Nebraska

WM. SUHR
Grand Island, Nebraska

OFFICERS

F. E. KRUESI.....President

V. M. JOHNSON.....Vice-President and Treasurer

J. C. HOGE.....Vice-President

HOWARD KYLE.....Secretary and Auditor

H. E. KRALL.....Ass't Sec'y and Ass't Treas.

Transfer Agent
ILLINOIS STOCK TRANSFER COMPANY
Chicago, Illinois

Registrar of Stock
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY
Chicago, Illinois

This report is prepared primarily for the information of security holders of the Company and is not transmitted in connection with the sale of any security or offer to sell or offer to buy any security.

CENTRAL POWER COMPANY

March 10, 1937

To the Stockholders:

Your Directors present to you in this report the financial and operating results of Central Power Company for the year 1936.

THE YEAR'S BUSINESS

The territory served is dependent upon agriculture and during the first half of the year the prospects for a normal crop were good. Then came dry weather and continued hot winds which all but destroyed the corn crop and pastures, the loss of which had their effect on business throughout the balance of the year.

Total operating revenues of the Company for the year 1936, exclusive of merchandise and jobbing revenues, amounted to $1,518,378.52 compared with $1,390,498.95 in 1935, an increase of $127,879.57, or 9.2%. Of the increase in operating revenues $74,202.40 was in sales of electricity and $52,849.92 in gas.

Operating expenses, exclusive of maintenance, taxes and provision for retirement, increased $88,530.30, of which $34,860.89 was in cost of gas purchased for resale and $31,078.20 in production cost of electricity owing to increased sales and decreased output of the Company's hydro-electric plants. The balance of the increase was due to increased cost of materials and supplies, partial restoration of payroll decreases made during the depression, and legal expenses incurred in protecting your property, by reason of the activities of the Public Works Administration referred to in last year's report.

Maintenance expenditures amounted to $154,532.47, an increase over the previous year of $23,261.75. The large expenditures which have been made on maintenance during the past three years have greatly improved the physical condition of your Company's property, and in consequence the quality of service rendered to customers.

Provision for retirements was on the same basis as for 1935 and amounted to $155,216.81. This provision is for property retirement losses currently realized and also to provide reserves for future retirements.

Taxes continued to increase and aggregated $80,238.38, not including numerous indirect taxes.

During the year expenditures for new construction totaled $148,601.17. The greater portion of these investment expenditures were for improving service to present customers and for connecting new business secured.

FINANCIAL

After deducting operating expenses including provision for retirements,

interest on funded debt, general interest and amortization there remained a net income of $109,040.94 available for preferred stock dividends as compared with $76,200.16 for 1935. Total dividends declared on the preferred stock during the year amounted to $47,299.99, and were at one-half the full rate for the first three quarters and three-fourths of the full rate for the final quarter, or $3.93¾ per share and $3.37½ per share on the 7% and 6% Preferred Stock, respectively. Accumulated and unpaid dividends in arrears on December 31, 1936, amounted to $15.31¼ per share on the 7% preferred stock and $13.12½ per share on the 6% preferred stock, a total of $183,986.25. In view of improved earnings, the Directors have declared dividends at the full quarterly rate of $1.75 per share on the 7% and $1.50 per share on the 6% Preferred Stocks, payable April 15th to holders of record March 31, 1937.

During the year the Company purchased in the open market $74,500 in principal amount of its First Mortgage bonds, which, together with the $169,000 previously purchased, and $27,200 acquired through the discontinuance of the Service Annuity Fund, are held in the Treasury. There also was purchased from the proceeds of property sold, $70,000 in principal amount of bonds which were cancelled. The reduction effected in interest and amortization charges as a result of these bond purchases has increased the balance available for dividends on the preferred stock.

At a special meeting of stockholders held on July 13, 1936, the stockholders voted to reduce the Company's capital by $1,008,500.00. This reduction was effected by retiring (a) 2,585 shares of common stock owned by the Company, and (b) 7,500 outstanding shares of common stock donated to the Company for that purpose by the holders thereof. The capital surplus thus created, together with the balance remaining in the Retirement Reserve and Earned Surplus accounts as of June 30, 1936, were utilized at that date to write off in full all property abandoned, discount and expense on bonds of refunded issues, discount and expense on preferred stock, organization expense, and the excess of the purchase price of properties acquired from affiliated companies over cost to the latter. The accompanying financial statements reflect these transactions.

The assets of the Service Annuity Fund, all originally contributed by the Company, consisting of $27,200 in principal amount of the Company's bonds and $322.83 in cash, were taken into the treasury of the Company shortly before the close of the year. The fund had been inactive for some time.

RATES

By the adoption of lower and more attractive rate schedules, customers were given an incentive to make greater use of electric and gas service. Our customers now enjoy exceptionally low rates. The average rate earned by the residential customers of the Company decreased from 5½ cents to slightly over

5 cents per kilowatt-hour. This compares very favorably with national averages in spite of the small and scattered population served.

NEW BUSINESS

In cooperation with local dealers, the Company continued its efforts to increase the sale of electric and gas appliances and equipment as a stimulus to the increased use of electric and gas services. Special effort was placed on the sales of major load building appliances such as ranges, water heaters, refrigerators and gas-house heating equipment, more of which were sold than in any previous year.

PUBLIC OWNERSHIP

Last year's report referred to the suit filed in Washington by this and other Nebraska utility companies to prevent Government agencies from forcing the state hydro and irrigation projects (financed by the Public Works Administration) to use their power developments to invade the territory now adequately served by this and other companies. A restraining order was obtained which, with slight modification is still in effect and probably will remain so until the issues involved have been decided by the Courts.

The Sutherland hydro and irrigation project has now started operating and the Company has agreed to cooperate, provided that the project's service be reliable, by purchasing such electric energy as the project may produce and the Company can absorb at a price as high, but no higher, than the Company can itself produce the energy with its own adequate and efficient facilities.

APPRECIATION

The Officers and Directors of your Company, realizing that the prosperity of the Company and the communities it serves are interdependent, wish to acknowledge the sincere cooperation which they have received from the officials of the cities and towns served.

On behalf of the Directors it is also a pleasure to acknowledge the help which we have received from the stockholders and to compliment the employees for their loyal and efficient work.

By Order of the Board of Directors,

F. E. KRUESI, President.

ARTHUR ANDERSEN & CO.
Accountants and Auditors

135 South La Salle Street
CHICAGO

To the Board of Directors,
Central Power Company:

We have made an examination of the balance sheet of CENTRAL POWER COMPANY (a Delaware corporation) as at December 31, 1936, and of the statement of income and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions. We did not examine the property account (approximately $9,100,000) covering the period prior to December 31, 1931.

At a meeting held on July 13, 1936, the stockholders approved a reduction in capital of $1,008,500.00 effected by the surrender to the Company and the retirement of $750,000.00 par value of common stock and the retirement of $258,500.00 par value of such stock reacquired in prior years. Amendments for such reduction were filed with the Secretary of State of Delaware on July 20, 1936. The capital surplus thus created was used for the write-off of certain property and other items, as set forth in the accompanying summary of capital surplus account. These transactions were recorded on the books and approved by the board of directors as of June 30, 1936.

The company, under the retirement method, undertakes to provide for property-retirement losses currently realized. This method does not contemplate a full provision for accrued depreciation as determined by the age and estimated service life of the properties.

Subject to the foregoing comments, in our opinion, based upon the examination referred to above, the accompanying balance sheet and statement of income and surplus accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the year under review, the financial position of the company as of December 31, 1936, and the results of its operation for the year ended that date.

ARTHUR ANDERSEN & CO.

Chicago, Illinois, January 19, 1937.

CENTRAL POWER COMPANY

STATEMENT OF INCOME AND SURPLUS ACCOUNTS AND SUMMARY OF CONTINGENCY RESERVE FOR THE YEAR ENDED DECEMBER 31, 1936

INCOME ACCOUNT

OPERATING REVENUES:	
Electric	$ 965,612.49
Gas	511,941.62
Water	40,824.41
Total operating revenues	$1,518,378.52
OPERATING EXPENSES AND TAXES:	
Gas purchased	$ 299,573.43
Operation	455,109.16
Maintenance	154,532.47
Provision for retirements—see auditors' report	155,216.81
Taxes—	
State, local and miscellaneous Federal	77,406.59
Federal Income—	
Normal tax	2,831.79
Undistributed profits tax	——
Total operating expenses and taxes	$1,144,670.25
Net operating income	$ 373,708.27
OTHER INCOME:	535.30
Gross income	$ 374,243.57
INTEREST DEDUCTIONS:	
Interest on funded debt	$ 248,330.76
General interest	1,657.68
Amortization of bond discount and expense	15,214.19
Total interest deductions	$ 265,202.63
Net income	$ 109,040.94

NOTE: In the Federal income-tax returns filed by the company, the amounts deducted for depreciation are computed on the basis of age and estimated lives of depreciable property, as allowed by the United States Treasury Department, and are substantially larger than the provision for retirement reserve, as set forth above.

CENTRAL POWER COMPANY

SUMMARY OF SURPLUS ACCOUNT

PARTICULARS	Jan. 1, 1936 To June 30, 1936 (1)	July 1, 1936 To Dec. 31, 1936	Total
BALANCE DECEMBER 31, 1935 — see auditors' report	$108,834.41	$ ——	$108,834.41
NET INCOME FOR PERIOD	26,673.61	82,367.33	109,040.94
	$135,508.02	$82,367.33	$217,875.35
DEDUCT — Dividends on preferred stocks (2)	21,021.24	26,278.75	47,299.99
	$114,486.78	$56,088.58	$170,575.36
OTHER DIRECT CHARGES:			
Balance of premium, discount and expense on refunded bond issues at January 1, 1936, less $5,020.20 applicable to bonds reacquired in 1936, written off	$225,113.84	$ ——	$225,113.84
Balance of abandoned property written off after utilizing balance of retirement reserve at June 30, 1936 ($144,598.06)	18,326.12	——	18,326.12
Loss on sale of real estate	10,207.30	——	10,207.30
Miscellaneous items (net)	——	2,542.41*	2,542.41*
Total other direct charges	$253,647.26	$ 2,542.41*	$251,104.85
Balance	$139,160.48*	$58,630.99	$ 80,529.49*
DEFICIT TRANSFERRED TO CAPITAL SURPLUS AS OF JUNE 30, 1936	139,160.48	——	139,160.48
BALANCE DECEMBER 31, 1936 — earned surplus since June 30, 1936—includes $8,460.00 of surplus from June 30, 1936 to July 20, 1936	$ ——	$58,630.99	$ 58,630.99

*Red Figure

(1) Date of recording donation and cancellation of common stock.

(2) Dividends were paid or accrued at one-half the annual cumulative rate for the first nine months of 1936 and at three-fourths such rate during the last three months of 1936.

CENTRAL POWER COMPANY

SUMMARY OF CAPITAL—SURPLUS ACCOUNT AND CONTINGENCY RESERVE

		Capital Surplus	Contingency Reserve
BALANCE DECEMBER 31, 1935, per previous report, representing surplus of predecessor companies at dates of acquisition		$ 36,070.98	$ ——
ADD:			
Capital surplus arising from cancellation of 7,500 shares of common stock surrendered to the company		750,000.00	——
Capital surplus arising from cancellation of 2,585 shares of common stock previously reacquired by the company		258,500.00	——
Service-annuity fund returned to company by action of board of directors, less $3,512.95 representing Federal income taxes thereon		——	22,260.16
Balance of capital surplus transferred to contingency reserve		——	4,793.36
Net discount on bonds reacquired prior to date of recapitalization		8,187.38	——
Miscellaneous reserves, etc. transferred to capital surplus		23,462.82	——
		$1,076,221.18	$27,053.52
DEDUCT — Adjustments approved by board of directors:			
Write-offs from property account represented by—			
Excess of purchase price of properties acquired from affiliated company over cost to latter	$484,371.97		
Reversal of balance of retirement reserves recorded at dates of acquisition applicable to properties purchased	122,124.52		
Organization expenses, etc.	20,546.17	$ 627,042.66	$ ——
Cost of 2,585 shares of common stock reacquired in prior years		258,500.00	——
Balance (deficit) transferred from surplus account, as above		139,160.48	——
Preferred and common-stock commissions and expenses (net)		46,724.68	——
Reimbursement by company of portion of payments previously made by employees to Associated Employees Investments, Inc.		——	17,076.44
Amount appropriated as contingency reserve		4,793.36	——
		$1,076,221.18	$17,076.44
BALANCE DECEMBER 31, 1936		$ ——	$ 9,977.08

BALANCE SHEET

ASSETS

PROPERTY, PLANT AND EQUIPMENT* stated on the basis of the par value of bonds and common stock issued and cash paid for properties acquired as entireties (approximately $4,500,000) plus subsequent additions at cost, less retirements and less write-offs to capital surplus of $627,042.66			$ 7,724,323.85
BOND DISCOUNT AND EXPENSE IN PROCESS OF AMORTIZATION			307,312.32
PREPAID ACCOUNTS AND DEFERRED CHARGES			7,260.28
CURRENT ASSETS:			
Cash		$ 286,880.53	
Customers' accounts, notes and warrants receivable (including merchandise installment accounts due in more than one year)	$245,172.89		
Less — Reserve for uncollectible notes and accounts	6,711.32	238,461.57	
Materials and supplies—quantities and condition determined by the company—priced substantially at cost		65,919.39	591,261.49
			$ 8,630,157.94

*The accounts of the Company do not reflect a segregation between tangible property and intangibles. The intangibles are believed to be minor in amount.

NOTE: The Uniform System of Accounts prescribed by the Federal Power Commission, effective January 1, 1937, requires, among other things, an analysis and restatement of electric fixed capital so as to show the original cost of the property when first devoted to public service, as well as the other elements contained therein. The Classification also requires a change from retirement to depreciation accounting. It is not known at this time the extent to which these changes in accounting practice may affect future statements of the company's balance sheet and income account.

E R C O M P A N Y

DECEMBER 31, 1936

LIABILITIES

CAPITAL STOCK:		
Cumulative-preferred stock—authorized 20,000 shares, par value $100 each, issuable in series—		
7%-cumulative preferred stock—		
Issued and outstanding	$ 992,400.00	
6%-cumulative preferred stock—		
Issued and outstanding	244,000.00	
Common stock—authorized 35,000 shares, par value $100 each—issued 19,716 shares	1,971,600.00	$ 3,208,000.00
FUNDED DEBT:		
First-mortgage 5% gold bonds, Series D, due July 1, 1957 (Less $270,700.00 reacquired and held in treasury)		4,893,800.00
DEFERRED LIABILITIES:		
Customers' deposits	$ 32,019.29	
Municipal bonds assumed, due in 1942	3,500.00	35,519.29
CURRENT LIABILITIES:		
Accounts payable	$ 83,240.19	
Municipal bonds assumed, due in 1937	4,000.00	
Accrued interest	125,554.36	
State, local and miscellaneous Federal taxes	35,966.41	
Federal Income Taxes	6,344.74	
Preferred-stock dividends payable	15,768.07	
Miscellaneous current liabilities	8,772.09	279,645.86
RESERVES:		
Retirement reserve	$ 91,436.65	
Contributions for extensions	53,148.07	
Contingency reserve	9,977.08	154,561.80
EARNED SURPLUS—since June 30, 1936		58,630.99
Cumulative-preferred dividends not declared and not accrued on books at December 31, 1936 amounted to $183,986.25 or approximately $15.31 per share on the 7% preferred stock and $13.12 on the 6% preferred stock.		
		$ 8,630,157.94

CENTRAL POWER COMPANY

COMPARATIVE STATISTICAL DATA

ELECTRIC

	1936	1935	1934	1933
Number of communities served—retail electricity	43*	43*	45	45
Total population served with electricity—retail	47,723	46,716	47,979	47,979
Number of domestic electric customers	8,713	8,573	8,809	8,647
Number of electric customers other than domestic	3,284	3,294	3,421	3,489
Electric sales—K. W. H. (000 omitted)	39,803	34,216	31,596	28,484
Capacity of hydro-electric stations—K. W.	4,700	4,700	4,700	4,700
Number of hydro-electric stations	3	3	3	3
Capacity of fuel burning stations—K. W.	17,886	17,886	19,136	20,136
Number of fuel burning stations	6	6	7	7
Miles of transmission lines 6,600 volts and over	543	543	543	543

*Two communities now classified as wholesale customers.

GAS

Number of communities served—retail gas	4	4	4	4
Total population served with gas—retail	51,690	49,741	49,306	48,901
Population served with gas only (included in above total)	15,490	15,500	15,140	15,140
Number of domestic gas customers	8,371	8,195	7,857	7,717
Number of gas customers other than domestic	1,015	1,005	947	717
Gas sales—M. C. F.	888,899	777,767	641,260	461,059
Miles of gas mains	159.0	155.5	152.1	150.9

WATER

Number of communities served—retail water	1	1	1	1
Total population served with water—retail	7,500	7,200	7,200	7,150
Population served with water only (included in above total)	None	None	None	None
Number of domestic customers	1,298	1,302	1,273	1,231
Number of water customers other than domestic	277	264	267	259
Water pumped—M gallons	343,824	305,613	374,200	394,500
Daily capacity of plants in gallons	2,000,000	2,000,000	2,000,000	2,000,000
Number of pumping plants	1	1	1	1
Miles of water mains	21.6	21.2	21.1	21.0

GENERAL

Total number of communities served retail	44	44	46	46

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Central Power Company

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CENTRAL POWER COMPANY

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BOARD OF DIRECTORS

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J. C. HOGE ..... Vice-President
W. H. SINKE ..... Vice-President
HOWARD KYLE ..... Secretary and Auditor
H. E. KRALL ..... Treasurer and Ass't Secretary
H. B. HAASE ..... Ass't Treasurer

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Chicago, Illinois

This report is prepared primarily for the information of security holders of the Company and is not transmitted in connection with the sale of any security or offer to sell or offer to buy any security.

CENTRAL POWER COMPANY

March 10, 1938

To the Stockholders:

Your Directors present to you in this report the financial and operating results of Central Power Company for the year 1937.

OPERATION

Despite unfavorable agricultural conditions in the territory served by the Company, total operating revenues for the year 1937, exclusive of merchandise and jobbing revenues, amounted to $1,563,735.11 compared with $1,518,378.52 in 1936, an increase of $45,356.59 or 2.9%. Sales of electricity increased $16,515.12 in 1937 while gas sales increased $30,553.08 as compared with 1936.

Operating expenses, exclusive of maintenance, taxes and depreciation, increased $12,003.05. Cost of gas purchased for resale increased $24,440.90, while the production cost of electricity decreased $9,100.73, owing to increased economies effected in power plants.

Maintenance expenditures amounted to $121,864.36 in 1937, a decrease, as compared with the previous year, of $32,668.11. The maintenance expenditures which were made in the past few years were exceptionally large. The physical condition of the property was greatly improved by these expenditures.

The Company adopted the depreciation principal of accounting in 1937 and is now engaged in a study to determine its depreciation requirements. Provision for depreciation for the year amounted to $174,125.17, an increase of $18,908.36 over the retirement provision of last year.

Taxes continued to increase and amounted to $94,463.50, an increase of $16,618.00 or 21.3%. Tax requirements in 1937 exceeded annual preferred dividend requirements by 12.3%.

During the year expenditures for new construction totaled $175,015.07. The greater portion of such investment expenditures was for improving service to present customers and for connecting new customers.

FINANCIAL

After deducting operating expenses including provision for depreciation, interest on funded debt, general interest and amortization, there remained a net income of $145,614.13 available for Preferred Stock dividends as compared with $109,040.94 for 1936. Total dividends declared on the Preferred Stock during the year amounted to $84,106.87 or at the full rate of $7 per share and $6 per share on the 7% and 6% Preferred Stock, respectively. Accumulated and unpaid dividends in arrears on December 31, 1937, amounted to $15.31 per share on the 7% Preferred Stock and $13.12 per share on the 6% Preferred Stock, a total of $183,986.25.

During the year the Company purchased in the open market $84,000 in principal amount of its 5% First Mortgage Bonds which, together with the $270,700 principal amount previously purchased or acquired, are held in the Company's treasury. The Trustee under the mortgage securing the Company's bonds, also purchased from the proceeds of property sold, $3,000 in principal amount of the bonds, which were cancelled. The reduction effected in interest and amortization charges as a result of these bond purchases has increased the net income available for dividends on the Preferred Stock.

RATES

There were no major rate changes during the year, the Company already having established inducement rate schedules as an incentive to customers to make greater use of electric and gas service. Our customers now enjoy exceptionally low rates. The average cost of electricity to residential customers of the Company in 1937 was five cents per kilowatt-hour. Commercial, general power and other rates are competitive and compare very favorably with national averages in spite of the small and scattered population served.

NEW BUSINESS

The Company continued its cooperation with local dealers in an effort to increase the sale of electric and gas appliances, with the following reported results: Sales of electric appliances—71 ironing machines, 89 ranges, 841 refrigerators, 652 washing machines and 32 water heaters; sales of gas appliances—627 ranges, 58 refrigerators, 481 water heaters and 396 house heating units.

RURAL ELECTRIFICATION

At the end of 1937, the Company was serving 613 rural customers and an effort is being made to interest other prospective rural customers located

along the Company's present lines. As the population in the rural areas served is for the most part, scattered, the number of customers served per mile of line is relatively low, the Company has necessarily restricted rural line extensions except where it appears that the additional investment in the line can be economically justified. With the aid of Government loans made by the Rural Electrification Administration, fifteen rural power districts have been approved and formed in Nebraska; thirteen additional districts are in the process of formation.

PUBLIC OWNERSHIP

The suit, mentioned in last year's annual report as filed in Washington by this and other Nebraska utility companies, was recently dismissed by the companies without prejudice. Two of the power and irrigation projects, which were involved in the suit, are nearing completion and it remains to be seen whether they will have a sufficient supply of water available for power during all periods of the year. Your Company purchased some energy from one of the Districts until it discontinued operations on account of failure of its facilities.

A movement developed during 1937 for the purchase by the three state power and irrigation districts, of all the electric utility properties in the state of Nebraska, including those of your Company. This movement is opposed by many of the municipalities served by your Company. The Company does not desire to sell its properties and no price suggested for the electric properties of Central Power Company is considered adequate. The situation may be of serious moment because of the implied possibility of state or municipal competition. The ultimate outcome of this situation can not be predicted at this time.

APPRECIATION

The Officers and Directors of your Company, realizing that the prosperity of the Company and the communities it serves are inter-dependent, wish to acknowledge the sincere cooperation which they have received from the officials of the cities and towns served.

On behalf of the Directors it is also a pleasure to acknowledge the help which we have received from the stockholders and to compliment the employees for their loyal and efficient work.

By Order of the Board of Directors,

V. M. JOHNSON, President

ARTHUR ANDERSEN & CO.

135 South LaSalle Street
Chicago

To the Board of Directors,
Central Power Company:

We have made an examination of the balance sheet of CENTRAL POWER COMPANY (a Delaware corporation) as at December 31, 1937, and of the statement of income and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions. We did not examine the property account covering the period prior to December 31, 1931, the balance of which was approximately $9,100,000 at that date.

Subject to the adequacy of the provision and reserve for depreciation, in our opinion, based upon the examination referred to above, the accompanying balance sheet and statement of income and surplus fairly present in accordance with accepted principles of accounting, consistently maintained by the company during the year under review except for the adoption of the depreciation principle of accounting as set forth in the footnote to the statement of income, the financial position of the company at December 31, 1937, and the results of its operations for the year ended that date.

ARTHUR ANDERSEN & CO.

Chicago, Illinois, January 18, 1938.

CENTRAL POWER COMPANY

INCOME ACCOUNT AND SUMMARY OF SURPLUS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1937

INCOME ACCOUNT

OPERATING REVENUES:	
Electric	$ 982,127.61
Gas	542,494.70
Water	39,112.80
Total operating revenues	$1,563,735.11
OPERATING EXPENSES AND TAXES:	
Operation (including $351,443.10 power and gas purchased)	$ 766,685.64
Maintenance	121,864.36
Depreciation	174,125.17
Taxes—	
State, local and miscellaneous Federal	81,063.50
Federal income—	
Normal tax	13,150.00
Undistributed profits tax	250.00
Total operating expenses and taxes	$1,157,138.67
Net operating income	$ 406,596.44
OTHER INCOME	177.43
Gross income	$ 406,773.87
INTEREST AND OTHER DEDUCTIONS:	
Interest on long-term debt	$ 241,569.70
General interest	1,484.66
Amortization of bond discount and expense	14,785.88
Miscellaneous income deductions	3,319.50
Total interest and other deductions	$ 261,159.74
Net income	$ 145,614.13

NOTE: The system of accounts adopted January 1, 1937, by the company requires a change from the retirement method of providing for property retired from service to depreciation accounting. The company adopted the depreciation principle of accounting in 1937 and is now engaged in a study to determine its depreciation requirements. Pending the completion of this study, the company has increased its depreciation provision in 1937 to $174,125.17. The extent to which this study, when completed, may affect future provisions for depreciation is not known at this time.

The amounts deducted for depreciation in the Federal income-tax returns filed by the company are computed in accordance with the regulations of the Bureau of Internal Revenue and are larger than the provision for depreciation set forth above.

SUMMARY OF SURPLUS ACCOUNT

BALANCE DECEMBER 31, 1936 — earned surplus since June 30, 1936 (1)—includes $8,460.00 of surplus from June 30, 1936, to July 20, 1936		$ 58,630.99
ADD:		
Net income for the year ended December 31, 1937, as above		145,614.13
Net discount on reaquired bonds		5,800.10
Miscellaneous surplus credits		521.89
		$210,567.11
DEDUCT:		
Dividends on—		
7% preferred stock—$7 per share	$69,468.00	
6% preferred stock—$6 per share	14,638.87	
	$84,106.87	
Transfer to reserve for contingencies of surplus for period from June 30, 1936, to July 20, 1936	8,460.00	92,566.87
Balance December 31, 1937—since July 20, 1936, date of recapitalization		$118,000.24

(1) Date of recording donation and cancellation of common stock.

ASSETS

UTILITY PLANT:			
Stated on the basis of the par value of bonds and capital stock issued and cash paid for properties acquired as entireties (approximately $4,500,000) plus subsequent additions at cost, less retirements and less write-offs to capital surplus of $627,043. The accounts of the company do not reflect a segregation between tangible property and intangibles. The intangibles are believed to be minor in amount			$7,878,499.55
CURRENT ASSETS:			
Cash		$ 260,306.88	
Customers' accounts, notes and warrants receivable (including merchandise-installment accounts due in more than one year)	$270,738.75		
Less—Reserve for uncollectible notes and accounts	7,813.04	262,925.71	
Materials and supplies—quantities and condition determined by the company—priced substantially at cost		84,788.77	
Prepayments		3,206.67	611,228.03
DEFERRED CHARGES:			
Bond discount and expense in process of amortization		$ 287,124.68	
Other deferred charges		1,416.12	288,540.80
			$8,778,268.38

LIABILITIES

CAPITAL STOCK:			
Common stock—authorized 35,000 shares, par value $100 each—issued 19,716 shares		$1,971,600.00	
Cumulative preferred stock—authorized 20,000 shares, par value $100 each, issuable in series—			
7%—cumulative preferred stock—			
Issued and outstanding 9,924 shares	$992,400.00		
6%—cumulative preferred stock—			
Issued and outstanding 2,440 shares	244,000.00	1,236,400.00	$3,208,000.00
LONG-TERM DEBT:			
First-mortgage 5% gold bonds, Series D, due July 1, 1957, (less $354,700 reacquired and held in treasury)		$4,806,800.00	
Municipal bonds assumed, due in 1942		3,500.00	4,810,300.00
CURRENT LIABILITIES:			
Accounts payable		$ 90,318.49	
Preferred-stock dividends payable		21,027.00	
Customers' deposits		29,269.91	
State, local and miscellaneous Federal taxes		35,533.71	
Federal income taxes		17,355.53	
Accrued interest		123,219.45	316,724.09
RESERVES:			
Depreciation		$ 234,388.73	
Contingencies		32,829.76	267,218.49
CONTRIBUTIONS IN AID OF CONSTRUCTION			58,025.56
EARNED SURPLUS:			
—since July 20, 1936, date of recapitalization			118,000.24
Cumulative preferred dividends not declared or accrued in the the accounts of the Company at December 31, 1937, amounted to $183,986.25 or approximately $15.31 per share on the 7% preferred stock and $13.12 on the 6% preferred stock.			
			$8,778,268.38

CENTRAL POWER COMPANY

COMPARATIVE STATISTICAL DATA

ELECTRIC

	1937	1936	1935	1934
Number of communities served—retail electricity	43	43	43	45
Total population served with electricity—retail	48,435	47,723	46,716	47,979
Number of domestic electric customers	8,702	8,713	8,573	8,809
Number of electric customers other than domestic	3,275	3,284	3,294	3,421
Electric sales—K. W. H. (000 omitted)	40,319	39,803	34,216	31,596
Capacity of hydro-electric stations—K. W.	4,700	4,700	4,700	4,700
Number of hydro-electric stations	3	3	3	3
Capacity of fuel burning stations—K. W.	19,136	17,886	17,886	19,136
Number of fuel burning stations	6	6	6	7
Miles of electric lines 6,600 volts and over	543	543	543	543

GAS

Number of communities served—retail gas	4	4	4	4
Total population served with gas—retail	51,472	51,690	49,741	49,306
Population served with gas only (included in above total)	15,500	15,490	15,500	15,140
Number of domestic gas customers	8,642	8,371	8,195	7,857
Number of gas customers other than domestic	1,038	1,015	1,005	947
Gas sales—M. C. F.	933,238	888,899	777,767	641,260
Miles of gas mains	163.6	159.0	155.5	152.1

WATER

Number of communities served—retail water	1	1	1	1
Total population served with water—retail	7,372	7,500	7,200	7,200
Population served with water only (included in above total)	None	None	None	None
Number of domestic customers	1,294	1,298	1,302	1,273
Number of water customers other than domestic	271	277	264	267
Water pumped—M gallons	299,000	343,824	305,613	374,200
Daily capacity of plants in gallons	2,000,000	2,000,000	2,000,000	2,000,000
Number of pumping plants	1	1	1	1
Miles of water mains	21.8	21.6	21.2	21.1

GENERAL

Total number of communities served retail	44	44	44	46

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Central Power Company

Annual Report

1938

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CENTRAL POWER COMPANY

General Office: 385 North Pine Street
Grand Island, Nebraska

BOARD OF DIRECTORS

A. W. BORDEN
Hastings, Nebraska

V. M. JOHNSON
Grand Island, Nebraska

J. G. LOWE
Kearney, Nebraska

R. F. PFEIFFER
Kearney, Nebraska

WM. H. PITZER
Nebraska City, Nebraska

WM. SUHR
Grand Island, Nebraska

E. H. VIEREGG
Grand Island, Nebraska

OFFICERS

V. M. JOHNSON ..... President
J. C. HOGE ..... Vice-President
W. H. SINKE ..... Vice-President
HOWARD KYLE ..... Secretary and Auditor
H. E. KRALL ..... Treasurer and Ass't Secretary
H. B. HAASE ..... Ass't Treasurer

Transfer Agent
ILLINOIS STOCK TRANSFER COMPANY
Chicago, Illinois

Registrar of Stock
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY
Chicago, Illinois

This report is prepared primarily for the information of security holders of the Company and is not transmitted in connection with the sale of any security or offer to sell or offer to buy any security.

CENTRAL POWER COMPANY

March 15, 1939

To the Stockholders:

This report contains information relating to the financial and operating results of Central Power Company for the year 1938.

FINANCIAL

The income account of the Company which is represented on page five in this report may be stated in simplified form as follows:

INCOME

Payments by customers for electric energy and other services furnished to them ($1,564,512.26), together with net miscellaneous income ($239.21)....		$1,564,751.47

EXPENSES

Wages and salaries to employees.....	$306,571.33	
Taxes of Local, State and Federal governments.....	101,757.61	
Cost of fuel, materials, supplies and all other operating expenses, except taxes, wages and salaries and depreciation	573,414.66	
Depreciation, provided to replace the property as it wears out and becomes obsolete.....	178,436.74	
Total of above		1,160,180.34
Balance (Gross Income)		$ 404,571.13

INTEREST AND DIVIDEND DEDUCTIONS

Payments to bondholders and stockholders who supplied the money to build the utility property used by the employees to furnish utility service to customers:		
Bond interest and other deductions	$256,315.83	
Preferred stock dividends	98,126.40	
Common stock dividends	none	354,442.23
Balance to surplus		$ 50,128.90

Electric revenues were $12,882.94, or 1.31%, more in 1938 than in 1937. While the average number of kilowatt-hours used by the electric customers in their homes increased 3.7% in 1938 over 1937, the average amount paid per kilowatt-hour decreased 2% because the rates now in effect automatically decrease the average cost per kilowatt-hour for increased use of service.

Gas revenues were $12,067.78, or 2.22%, less in 1938 than in 1937, while the number of gas customers increased 253. The reduction in revenues was owing to the milder weather experienced, thus reducing the heating bills.

Taxes for 1938 were $101,757.61, as compared with $94,463.50 in 1937, an increase of $7,294.11, or 7.7%. The 1938 taxes were 86.8% more than in 1931, the year in which the Company did its largest business prior to 1934.

In 1938 the cost of fuel, materials, supplies and all other operating expenses (except taxes and depreciation) used to carry on our business, amounted to $879,985.99. In spite of a rising market and other increased costs, this class of expense was reduced $8,564.01 below what it was in 1937.

Maintenance expenditures amounted to $121,550.61 in 1938, being approximately the same as was expended last year. The physical condition of the property has been greatly improved by these maintenance expenditures in the past few years.

Bond interest paid in 1938 was $4,767.46 less than the total paid in 1937 because of the purchase in the open market of $209,000 in principal amount of the Company's First Mortgage 5% Bonds at various times during the year. These bonds, acquired at a cost of $171,340.15, are held in the treasury of the Company.

During 1938, the Preferred Stockholders, a large number of whom are customers of the Company, were paid $98,126.40 for the use of their money. This represents the full dividend for the year 1938 and a small payment on dividends that are in arrears. Accumulated Preferred Stock dividend arrears at the close of the year amounted to $169,968.25, which arrears must be satisfied before the payment of any dividends to the Common Stockholders, who have received no dividend payments whatever since 1932.

OPERATION

The 1938 electric output, including purchased power, was 1,625,000 kilowatt-hours less than last year owing to reduced sales to other utilities that have provided their own requirements. The hydro-electric generating stations generated 4,063,000 kilowatt-hours more in 1938 than in 1937. The Company's steam generating stations generated 3,676,000 kilowatt-hours less and 2,012,000 kilowatt-hours less energy was purchased for resale to customers.

Owing entirely to weather conditions, the winter season being abnormal, the Company purchased 65 million cubic feet of gas less in 1938 than in 1937. The Company added 253 gas customers during the year.

During the year expenditures for new construction totaled $103,840 and retirements of property amounted to $42,003. These expenditures were made to improve service to present customers and for connecting new customers.

RATES

There were no major rate changes during the year, the Company already having established inducement rate schedules as an incentive to customers to make greater use of electric and gas service. Our customers now enjoy exceptionally low rates. The average cost of electricity to residential customers of the Company in 1938 was 4.9c per kilowatt-hour. Commercial, general power and other rates are competitive and compare very favorably with national averages in spite of the small and scattered population served.

NEW BUSINESS

The Company continued its cooperation with local dealers in an effort to increase the sale of electric and gas appliances. Total merchandise sales were $33,949, or 18.2% less than last year, owing to general business conditions.

PUBLIC OWNERSHIP

Mention was made in last year's annual report of a movement by the three State Power and Irrigation Districts for the purchase of several of the major privately owned electric utility properties in the State of Nebraska, including those of your Company.

A joint offer was made to the Company by two of the Districts which would have enabled the Bondholders and Preferred Stockholders to receive par for their securities, but not dividend arrears on the Preferred Stock.

The Company then informed the Districts that the purchaser would be required: First, to secure the consent of any and all municipalities served by the Company which might object to such sale; Second, to secure the consent of at least ninety per cent of the Bondholders, Preferred Stockholders and Common Stockholders to such sale; and Third, to give notice to the cities of Grand Island, Kearney, and Nebraska City at least ninety days before such contract for sale was executed.

Due to the fact that the conditions outlined were not fulfilled, the Company never reached the point of approaching its security holders.

The Districts are at this time, we are informed, negotiating the purchase of other utilities within the State. However, the Districts' first proposed bond issue which has not yet been underwritten or offered, did not provide for the purchase of any Central Power Company properties. The ultimate outcome is unpredictable.

Nebraska City, one of the communities served by the Company, on August 9, 1938, voted to acquire the Company's properties in that city by condemnation proceedings. This has been stayed for the time being by a temporary injunction upon which no hearing has yet been set.

APPRECIATION

The Officers and Directors of the Company, realizing that the prosperity of the Company and the communities it serves are interdependent, wish to acknowledge the sincere cooperation which they have received from the officials of the cities and towns served.

On behalf of the Directors it is also a pleasure to acknowledge the help received from the stockholders and to compliment the employees for their loyal and efficient work.

By order of the Board of Directors,

V. M. JOHNSON, President.

ARTHUR ANDERSEN & CO.

135 South LaSalle Street
Chicago

To the Board of Directors,
Central Power Company:

We have made an examination of the balance sheet of CENTRAL POWER COMPANY (a Delaware corporation) as at December 31, 1938, and of the statement of income and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions. We had previously made a similar examination for the year ended December 31, 1937. We did not examine the utility plant account covering the period prior to December 31, 1931, having a balance of approximately $9,100,000 at that date.

Subject to the adequacy of the reserve for depreciation, in our opinion, based upon such examination, the accompanying balance sheet and statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the year under review, the financial position of the company at December 31, 1938, and the results of its operations for the year ended that date.

ARTHUR ANDERSEN & CO.

Chicago, Illinois, January 21, 1939

CENTRAL POWER COMPANY

STATEMENT OF INCOME ACCOUNTS FOR THE YEARS ENDED DECEMBER 31, 1938 AND 1937 AND SUMMARY OF EARNED SURPLUS ACCOUNT

INCOME ACCOUNTS

	1938	1937
Operating Revenues:		
Electric	$ 995 010.55	$ 982 127.61
Gas	530 426.92	542 494.70
Water	39 074.79	39 112.80
Total	**$1 564 512.26**	**$1 563 735.11**
Operating Expenses and Taxes:		
Operations—		
Power purchased	$ 17 278.15	$ 27 428.77
Gas purchased	299 345.00	324 014.33
Other	441 812.23	415 242.54
Maintenance	121 550.61	121 864.36
Depreciation	178 436.74	174 125.17
Taxes, other than income	85 757.61	81 063.50
Income taxes	16 000.00	13 400.00
Total	**$1 160 180.34**	**$1 157 138.67**
Net Operating Income	**$ 404 331.92**	**$ 406 596.44**
Other income	239.21	177.43
Gross Income	**$ 404 571.13**	**$ 406 773.87**
Interest and Other Deductions:		
Interest on long-term debt	$ 236 802.24	$ 241 569.70
Amortization of bond discount and expense	14 477.99	14 785.88
General interest	2 116.09	1 484.66
Other income deductions	2 919.51	3 319.50
Total	**$ 256 315.83**	**$ 261 159.74**
Net Income	**$ 148 255.30**	**$ 145 614.13**

SUMMARY OF EARNED SURPLUS ACCOUNT

Balance December 31, 1937 (since July 20, 1936, date of recapitalization)		**$ 118 000.24**
Add:		
Net income for the year ended December 31, 1938		148 255.30
Net discount on reacquired bonds, less applicable portion of Federal income taxes		21 213 .29
		$ 287 468.83
Deduct:		
Dividends on—		
7% preferred stock—$8.17 per share	$ 81 046.40	
6% preferred stock—$7.00 per share	17 080.00	**98 126.40**
Balance December 31, 1938		**$ 189 342.43**

BALANCE SHEET

ASSETS

Utility Plant:

"Stated on the basis of approximately $4,500,000 par value of bonds and capital stock issued and cash paid for properties acquired as entireties less write-offs, etc., plus subsequent additions at cost, less retirements. The accounts of the company do not reflect a segregation between tangible property and intangibles. The intangibles are believed to be minor in amount."			**$7 940 336.48**

Current Assets:

Cash		$ 270 792.30	
Customers' accounts, notes and warrants receivable	$141 830.55		
Merchandise accounts and notes receivable (including installment accounts due after one year)	103 442.11		
Other accounts and notes receivable	2 652.52		
	$247 925.18		
Less—Reserve for uncollectible notes and accounts	8 264.71	239 660.47	
Materials and supplies—priced substantially at cost—quantities and condition determined by the company		74 440.12	
Prepayments		3 624.07	**588 516.96**

Deferred Charges:

Bond discount and expense in process of amortization		$ 260 556.38	
Other		7 743.85	**268 300.23**
			$8 797 153.67

NOTES:

(1) Cumulative preferred stock dividends not declared or reserved for in the accounts of the Company at December 31, 1938, amounted to $169,968.25 or approximately $14.146 per share on the 7% preferred stock and $12.125 on the 6% preferred stock.

LIABILITIES

Capital Stock:			
Common stock—			
Authorized 35,000 shares par value $100 each			
Issued and outstanding 19,716 shares		$1 971 600.00	
Cumulative preferred stock (Note 1)—			
Authorized 20,000 shares, par value $100 each			
Issued and outstanding—			
7% series—9,924 shares	$992 400.00		
6% series—2,440 shares	244 000.00	1 236 400.00	**$3 208 000.00**
Long-Term Debt:			
First mortgage 5% gold bonds, Series D, due July 1, 1957 (less $563,700 reacquired and held in treasury)			**4 597 800.00**
Current Liabilities:			
Accounts payable		$ 81 628.13	
Preferred stock dividends payable		21 027.00	
Customers' deposits		32 792.58	
Accrued taxes		67 788.25	
Accrued interest		118 597.92	
Other		10 407.89	**332 241.77**
Reserves:			
Depreciation		$ 376 952.07	
Contingencies		32 829.76	**409 781.83**
Contributions in Aid of Construction			**59 987.64**
Earned Surplus — since July 20, 1936, date of recapitalization			**189 342.43**
			$8 797 153.67

(2) The city of Nebraska City began condemnation proceedings in 1938 with the view to purchasing the company's utilities in that city, against which action a temporary injunction has been granted to the company in Federal Court. The properties of the company are situated in or adjoining the territories proposed to be served by the three public power and irrigation districts of Nebraska. The company does not know at this time what effect these proceedings and projects may have upon its properties and business.

CENTRAL POWER COMPANY

COMPARATIVE STATISTICAL DATA

ELECTRIC

	1938	1937	1936	1935
Number of communities served—retail electricity	43	43	43	43
Total population served with electricity—retail	49,425	48,435	47,723	46,716
Number of domestic electric customers	9,026	8,702	8,713	8,573
Number of electric customers other than domestic	3,177	3,275	3,284	3,294
Electric sales—K.W.H. (000 omitted)	39,178	40,319	39,803	34,216
Capacity of hydro-electric stations—K. W.	4,700	4,700	4,700	4,700
Number of hydro-electric stations	3	3	3	3
Capacity of fuel burning stations—K.W.	18,386	19,136	17,886	17,886
Number of fuel burning stations	6	6	6	6
Miles of electric lines 6,600 volts and over	538	543	543	543

GAS

Number of communities served—retail gas	4	4	4	4
Total population served with gas—retail	52,600	51,472	51,690	49,741
Population served with gas only (included in above total)	15,500	15,500	15,490	15,500
Number of domestic gas customers	8,840	8,642	8,371	8,195
Number of gas customers other than domestic	1,093	1,038	1,015	1,005
Gas sales—M.C.F.	867,447	933,238	888,899	777,767
Miles of gas mains	166.5	163.6	159.0	155.5

WATER

Number of communities served—retail water	1	1	1	1
Total population served with water—retail	7,300	7,372	7,500	7,200
Population served with water only (included in above total)	None	None	None	None
Number of domestic customers	1,360	1,294	1,298	1,302
Number of water customers other than domestic	275	271	277	264
Water pumped—M gallons	253,638	299,000	343,824	305,613
Daily capacity of plants in gallons	2,000,000	2,000,000	2,000,000	2,000,000
Number of pumping plants	1	1	1	1
Miles of water mains	22.4	21.8	21.6	21.2

GENERAL

Total number of communities served retail	44	44	44	44

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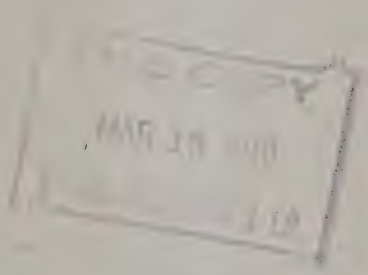
Central Power Company



Annual Report

1939

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CENTRAL POWER COMPANY

General Office: 385 North Pine Street
Grand Island, Nebraska

BOARD OF DIRECTORS

A. W. BORDEN
Hastings, Nebraska

V. M. JOHNSON
Grand Island, Nebraska

J. G. LOWE
Kearney, Nebraska

R. F. PFEIFFER
Kearney, Nebraska

WM. H. PITZER
Nebraska City, Nebraska

WM. SUHR
Grand Island, Nebraska

E. H. VIEREGG
Grand Island, Nebraska

OFFICERS

V. M. JOHNSON ..... President
J. C. HOGE ..... Vice-President
W. H. SINKE ..... Vice-President
HOWARD KYLE ..... Secretary and Auditor
H. E. KRALL ..... Treasurer and Ass't Secretary
H. B. HAASE ..... Ass't Treasurer

Transfer Agent
ILLINOIS STOCK TRANSFER COMPANY
Chicago, Illinois

Registrar of Stock
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY
Chicago, Illinois

This report is prepared primarily for the information of security holders of the Company and is not transmitted in connection with the sale of any security or offer to sell or offer to buy any security.

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CENTRAL POWER COMPANY

March 13, 1940

To the Stockholders:

There is presented herewith the operating and financial results of Central Power Company for the year 1939. The accompanying balance sheet and statement of income and surplus have been certified by Arthur Andersen & Co., Accountants and Auditors.

FINANCIAL

The income account of the Company which is presented on page five of this report may be stated in simplified form as follows:

INCOME

Payments by customers for electric energy, gas and other services furnished to them ($1,615,208.43), together with net miscellaneous income ($246.73)		$1,615,455.16

EXPENSES

Wages and salaries paid employees	$310,807.65	
Taxes of local, State and Federal Governments	113,349.06	
Cost of fuel, materials, supplies and all other operating expenses, except depreciation	593,574.57	
Depreciation, provided to replace the property as it wears out or becomes obsolete	165,595.85	
Total of above		1,183,327.13
Balance (Gross Income)		$ 432,128.03

INTEREST AND DIVIDEND DEDUCTIONS

Payments to bondholders and stockholders who provided the money to build the utility property used to furnish service to customers:		
Bond interest and other deductions	$244,562.45	
Preferred stock dividends — regular	84,108.00	
Preferred stock dividends — arrears	64,835.24	
Common stock dividends	none	393,505.69
Balance to surplus		$ 38,622.34

Electric revenues in 1939 were $1,019,742.45, an increase of $24,731.90 or 2.48%, over 1938. While the average number of kilowatt-hours used by the electric customers in their homes increased 4.76% in 1939 over 1938, the average amount paid per kilowatt-hour decreased 2.04% because the rates now in effect automatically decrease the average cost per kilowatt-hour for increased use of service.

Gas revenues amounted to $554,744.92, which was an increase of $24,318.00 or 4.58% over the previous year.

Taxes for 1939 totalled $113,340.06, an increase of 11.39% over 1938.

In 1939 the cost of labor, fuel, materials, supplies and all other operating expenses (except taxes and depreciation) required to carry on the Company's business, amounted to $904,382.22. This was an increase of $24,396.23 over such costs in the year 1938.

Maintenance expenditures amounted to $128,062.07 in 1939, an increase of $6,511.46 over the year 1938.

Bond interest paid in 1939 was $10,617.23 less than the total paid in 1938. During the year the Company purchased in the open market $99,000 in principal amount of its First Mortgage 5% Bonds.

During 1939 the Preferred stockholders, a large number of whom are customers of the Company, were paid dividends totalling $148,943.24. This sum represents payment of the full annual dividend for the year 1939 and a payment of $64,835.24 on dividends in arrears. Accumulated Preferred Stock dividend arrears at the close of the year amounted to $105,135.00, or $8.75 and $7.50 per share on the 7% and 6% Preferred Stock respectively. These arrears must be satisfied before the payment of any dividends to the Common stockholders.

OPERATIONS

The 1939 electric output, including purchased power, was but 368,130 kilowatt-hours more than last year. Owing to the severe drought, the hydro-electric generating stations generated 2,421,000 kilowatt-hours less in 1939 than in 1938. Because of increased purchases from the Nebraska Public Power Districts, the Company's steam generating stations generated 3,505,000 kilowatt-hours less, and 5,953,200 kilowatt-hours more energy was purchased for resale to customers. A total of 141 electric customers were added to the Company's lines during the year.

Gas sold to customers was 34 million cubic feet greater in 1939 than in 1938, reflecting increased sales per customer and a gain of 263 gas customers during the year.

Expenditures for new construction totalled $126,780.37 during the year and retirements of property amounted to $45,416.69. These expenditures were made to improve service to present customers and for connecting new customers.

RATES

There were no major rate changes during the year, the Company already having established inducement rate schedules as an incentive to customers to make greater use of electric and gas service. Our customers now enjoy exceptionally low rates. The average cost of electricity to residential customers of the Company in 1939 was 4.8c per kilowatt-hour. Commercial, general power and other rates are competitive and compare very favorably with national averages despite the small and scattered population served.

During the year the Company secured renewal of franchises from five of its towns.

NEW BUSINESS

The Company continued its cooperation with local dealers in an effort to increase the sale of electric and gas appliances. Total merchandise sales for the Company alone were $18,557, or 12.1% more than last year, notwithstanding general drought conditions.

PUBLIC OWNERSHIP

Mention was made in the 1937 and the 1938 annual reports of a movement by the three State Power and Irrigation Districts for the purchase of several of the major privately owned electric utility properties in the State of Nebraska, including those of the Company.

There are no negotiations pending at the present time for the sale of the Company's facilities except the properties at Nebraska City and adjacent territory, which was mentioned in last year's annual report. Condemnation proceedings were brought by the City to acquire the Company's properties, which proceedings were enjoined by the Company in the Federal Court. The injunction was denied by the Federal District Court and the matter is now pending in the Circuit Court of Appeals. The ultimate outcome is unpredictable.

By reason of the State Public Power Districts acquiring Northwestern Public Service Company's properties in and about Columbus, Nebraska, the Company has recently lost the wholesale electric business it formerly enjoyed with Northwestern Public Service Company, as well as one other wholesale account, the aggregate of which comprised a relatively small proportion of the Company's total operating revenues.

APPRECIATION

The Officers and Directors of the Company, realizing that the prosperity of the Company and the communities it serves are interdependent, wish to acknowledge the sincere cooperation which they have received from the officials and customers of the cities and towns served.

On behalf of the Directors it is also a pleasure to acknowledge the help received from the stockholders and to commend the employees for their loyal and efficient work.

By order of the Board of Directors,

V. M. JOHNSON, President

ARTHUR ANDERSEN & CO.

135 South LaSalle Street
Chicago

To the Board of Directors,
Central Power Company:

We have examined the balance sheet of CENTRAL POWER COMPANY (a Delaware corporation) as of December 31, 1939, and the statements of income and surplus for the year ended that date. In connection therewith we have examined or tested accounting records of the Company and other supporting evidence and have reviewed the system of internal control and the accounting procedures of the Company by methods and to the extent we deemed appropriate, but we did not make a detailed audit of the transactions. We had previously made a similar examination for the year ended December 31, 1938. We did not examine the utility plant account for the periods prior to December 31, 1931, having a balance of approximately $9,100,000 at that date.

Subject to the adequacy of the reserve for depreciation, in our opinion the accompanying balance sheet and related statements of income and surplus fairly present the financial position of the Company at December 31, 1939, and the results of its operations for the year ended that date, in conformity with generally accepted accounting principles maintained by the Company on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
January 20, 1940

CENTRAL POWER COMPANY

STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1939 AND 1938

	1939	1938
Operating Revenues:		
Electric	$1 019 742.45	$ 995 010.55
Gas	554 744.92	530 426.92
Water	40 721.06	39 074.79
Total	**$1 615 208.43**	**$1 564 512.26**
Operating Expenses and Taxes:		
Operations—		
Power purchased	$ 35 088.50	$ 17 278.15
Gas purchased	308 880.64	299 345.00
Other	432 351.01	441 812.23
Maintenance	128 062.07	121 550.61
Depreciation	165 595.85	178 436.74
Taxes, other than income	88 227.69	85 757.61
Income taxes	25 121.37	16 000.00
Total	**$1 183 327.13**	**$1 160 180.34**
Net Operating Income	**$ 431 881.30**	**$ 404 331.92**
Other income	246.73	239.21
Gross Income	**$ 432 128.03**	**$ 404 571.13**
Interest and Other Deductions:		
Interest on long-term debt	$ 226 185.01	$ 236 802.24
Amortization of bond discount and expense	13 847.96	14 477.99
General interest	1 457.60	2 116.09
Other income deductions	3 071.88	2 919.51
Total	**$ 244 562.45**	**$ 256 315.83**
Net Income	**$ 187 565.58**	**$ 148 255.30**

STATEMENT OF EARNED SURPLUS

Balance December 31, 1938 (since July 20, 1936, date of recapitalization)		**$ 189 342.43**
Add:		
Net income for the year ended December 31, 1939		187 565.58
Net discount on reacquired bonds		5 837.87
		$ 382 745.88
Deduct:		
Dividends on—		
7% preferred stock—$12.396 per share	$ 123 017.16	
6% preferred stock—$10.625 per share	25 926.08	**148 943.24**
Balance December 31, 1939		**$ 233 802.64**

BALANCE SHEET

ASSETS

Utility Plant:

Stated on the basis of approximately $4,500,000 par value of bonds and capital stock issued and cash paid for properties acquired as entireties less write-offs, etc., plus subsequent additions at cost, less retirements. The accounts of the Company do not reflect a segregation between tangible property and intangibles. The intangibles are believed to be minor in amount.			**$8 021 700.16**

Current Assets:

Cash		$ 209 343.25	
Special deposit for payment of bond interest		112 470.00	
Customers' accounts, and warrants receivable	$136 971.83		
Merchandise accounts and notes receivable (including installment accounts due after one year)	105 114.58		
Other accounts and notes receivable	3 150.08		
	$245 236.49		
Less—Reserve for uncollectible notes and accounts	8 913.09	236 323.40	
Materials and supplies, priced substantially at cost		75 665.95	
Prepayments		4 707.60	**638 510.20**

Deferred Charges:

Bond discount and expense in process of amortization		$ 241 165.25	
Other		3 772.58	**244 937.83**
			$8 905 148.19

NOTES:

(1) Cumulative preferred stock dividends not declared or reserved for in the accounts of the Company at December 31, 1939, amounted to $105,135.00 or $8.75 per share on the 7% preferred stock and $7.50 on the 6% preferred stock.

E R C O M P A N Y

DECEMBER 31, 1939

LIABILITIES

Capital Stock:			
Common stock—			
Authorized 35,000 shares par value $100 each			
Issued and outstanding 19,716 shares		$1 971 600.00	
Cumulative preferred stock (Note 1)—			
Authorized 20,000 shares, par value $100 each			
Issued and outstanding—			
7% series—9,924 shares	$992 400.00		
6% series—2,440 shares	244 000.00	1 236 400.00	**$3 208 000.00**
Long-Term Debt:			
First mortgage 5% gold bonds, Series D, due July 1, 1957 (less $662,700 reacquired and held in treasury)			**4 498 800.00**
Current Liabilities:			
Accounts payable		$ 78 801.11	
Preferred stock dividends payable		43 808.24	
Customers' deposits		35 779.74	
Accrued taxes		71 095.88	
Accrued interest (including $112,470 covered by special deposit)		116 837.75	
Other		9 501.90	**355 824.62**
Reserves:			
Depreciation		$ 513 220.53	
Contingencies		32 829.76	**546 050.29**
Contributions in Aid of Construction			**62 670.64**
Earned Surplus — since July 20, 1936, date of recapitalization			**233 802.64**
			$8 905 148.19

(2) The city of Nebraska City began condemnation proceedings in 1938 with the view to purchasing the Company's utilities in that city. This action is being contested by the Company and the case has been appealed to the U. S. Circuit Court of Appeals. The properties of the Company are situated in or adjoining the territories proposed to be served by the three public power and irrigation districts of Nebraska. The Company does not know at this time what effect these proceedings and projects may have upon its properties and business.

CENTRAL POWER COMPANY
COMPARATIVE STATISTICAL DATA

ELECTRIC

	1939	1938	1937	1936
Number of communities served—retail electricity	43	43	43	43
Total population served with electricity—retail	50,107	49,425	48,435	47,723
Number of domestic electric customers	9,191	9,026	8,702	8,713
Number of electric customers other than domestic	3,153	3,177	3,275	3,284
Electric sales—K.W.H. (000 omitted)	39,408	39,178	40,319	39,803
Capacity of hydro-electric stations—K.W.	4,700	4,700	4,700	4,700
Number of hydro-electric stations	3	3	3	3
Capacity of fuel burning stations—K.W.	18,386	18,386	19,136	17,886
Number of fuel burning stations	6	6	6	6
Miles of electric lines 6,600 volts and over	538	538	543	543

GAS

Number of communities served—retail gas	4	4	4	4
Total population served with gas—retail	53,820	52,600	51,472	51,690
Population served with gas only (included in above total)	16,000	15,500	15,500	15,490
Number of domestic gas customers	9,062	8,840	8,642	8,371
Number of gas customers other than domestic	1,134	1,093	1,038	1,015
Gas sales—M.C.F.	901,698	867,447	933,238	888,899
Miles of gas mains	169.7	166.5	163.6	159.0

WATER

Number of communities served—retail water	1	1	1	1
Total population served with water—retail	7,320	7,300	7,372	7,500
Population served with water only (included in above total)	None	None	None	None
Number of domestic customers	1,370	1,360	1,294	1,298
Number of water customers other than domestic	271	275	271	277
Water pumped—M gallons	231,755	253,638	299,000	343,824
Daily capacity of plants in gallons	2,000,000	2,000,000	2,000,000	2,000,000
Number of pumping plants	1	1	1	1
Miles of water mains	22.4	22.4	21.8	21.6

GENERAL

Total number of communities served retail	44	44	44	44

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